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Message Text

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ORIGIN XMB-04

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FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03
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FSE
EXIMBANK

DRAFTED BY XMB: D B SMITH/SLV
APPROVED BY EB/IFD/ODF:JABWINDER
XMB: R D CRAFTON
ARA/CAR:GDESANTILLANA
----------068088 240534Z /14
R 232243Z JUN 77
FM SECSTATE WASHDC
TO AMEMBASSY SANTO DOMINGO

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E.O. 11652: N/A

TAGS: EFIN, DR

SUBJECT: EXIMBANK - CDE'S CASALS MEETING OF JUNE 7, 1977

REF: SANTO DOMINGO 2246

1. CASALS WAS ACCOMPANIED BY AMBASSADOR HORACIO VICIOSO-SOTO AND MR. JOSE RAFAEL PUJOLS. CASALS PRESENTED COPIES OF FOUR CANCELLED CHECKS TOTALING 4.98 MILLION DOLS. WHICH APPARENTLY WAS TO COVER 2.76 MILLION DOLS. DUE EXIMBANK AND 2.22 MILLION DOLS. DUE TO COMMERCIAL BANKS WHICH HAVE PARTICIPATED IN THE EXIMBANK'S FINANCING OF CDE PROJECTS,
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SOME OF THIS PARTICIPATION GUARANTEED BY EXIMBANK. CASALS STATED THAT WHILE EXIMBANK MAY NOT HAVE RECEIVED ALL PAY-MENTS DUE, ONCE HE HAD MADE THE TRANSFER OF FUNDS TO THE AMERICAN BANKS HIS RESPONSIBILITY WAS ENDED. (WHILE NOT FULLY AGREEING WITH THAT POINT OF VIEW, EXIMBANK IS TRACING DOWN THE PAYMENTS TO THE VARIOUS BANKS AND WOULD EXPECT TO BE ABLE TO REPORT THE RESULTS SHORTLY. IT SHOULD BE ADDED THAT EXIMBANK VERY MUCH APPRECIATES THE BOWEN LETTER

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OF JUNE 3, 1977 AND THE WORK OF JOHN MORAN. THIS SHOULD
AID SUBSTANTIALLY IN THE PROCESS OF TRACING.)

2. ON MAY 20, 1977, BEFORE GOING ON TO SPAIN, CASALS
LEFT OFF A LETTER ASKING FOR A YEAR'S MORATORIUM ON
PAYMENTS ON THE EXIMBANK CREDITS, ALONG WITH A LIST OF
THE CHANGES TO BE MADE IN THE LOAN AGREEMENT, THIS LIST
BEING SUBSTANTIALLY THE SAME AS REPORTED IN REF CABLE.
IN THE MEETING, CASALS SAID THAT EXIMBANK COULD DISREGARD
THE REQUEST FOR THE MORATORIUM. THAT WHILE IT WOULD TAKE
SOME TIME TO PUT CDE BACK IN SOUND OPERATING CONDITION,
ITS CREDIT WAS SUCH THAT HE COULD BORROW FROM THE BANKS
TO CONTINUE TO MEET THE OBLIGATIONS TO EXIMBANK.

3. HE STATED THAT WHILE IN SPAIN HE HAD OBTAINED AN
UNTIED COMMITMENT FOR 100 MILLION DOLS. IN FINANCING WITH
15 YEARS REPAYMENT, INCLUDING A THREE YEAR GRACE PERIOD
AT 7-1/2 PER CENT INTEREST. HE EXPECTS SOON TO OBTAIN A
SIMILAR COMMITMENT FROM ITALY. HE SAID HE HAD A COPY OF
THE SPANISH AGREEMENT WHICH HE WOULD LEAVE WITH THE BANK,
BUT FAILED TO DO THIS. (COULD THE EMBASSY OBTAIN A COPY
FROM CASALS FOR EXIMBANK AND THE ITALIAN OFFER, TOO, IF
IT BECOMES AVAILABLE.) CASALS WAS NOW ASKING A SIMILAR
COMMITMENT FROM EXIMBANK. HE PROPOSED THAT CREDIT NO.
6127 BE INCREASED FROM A TOTAL U.S. PURCHASE PACKAGE OF
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47 MILLION DOLS. TO 100 MILLION DOLS., WITH AN INCREASED
EXIMBANK DIRECT CREDIT PARTICIPATION. UNDER THE PROPOSAL,
THE CASH REPAYMENT WOULD REMAIN AT 10 PER CENT, GOING
FROM 4.7 TO 10 MILLION DOLS., BUT THE EXIMBANK DIRECT
CREDIT WOULD BE INCREASED FROM 50 PER CENT TO 71.2 PER CENT
OR FROM 23.5 TO 71.2 MILLION DOLS. THE GUARANTEED AND
UNGUARANTEED PARTICIPATION WOULD REMAIN THE SAME DOLLAR-
WISE AT 14.1 AND 4.7 MILLION DOLS.PERCANTAGE
BUT WITH THE PERCENTAGES RESPECTIVELY DECREASED FROM 30
PER CENT AND 10 PER CENT TO 14.1 PER CENT AND 4.7 PER CENT.

4. ACCORDING TO CASALS, CDE PROPOSES TO USE THE 100
MILLION DOLS. TO PURCHASE TWO THERMAL UNITS IN THE 150
MW RANGE, ALONG WITH TRANSMISSION LINES, SUBSTATIONS AND
TRANSFORMERS, AND ELECTRIC METERS. WHILE EXIMBANK HAD
AGREED EARLIER TO SET ASIDE PART OF THE 47 MILLION DOLS.
PACKAGE FOR TWO GAS TURBINE UNITS IN LIEU OF THE TRANS-
MISSION LINES, CASALS INDICATED NO INTEREST IN THIS.

INSTEAD HE SAID HE PLANNED TO PURCHASE A USED WESTINGHOUSE
36 MW THERMAL PLANT FROM THE VIRGIN ISLANDS AT A COST OF
11 MILLION DOLS., AND THAT HE REQUIRED NO EXIMBANK FINANC-
ING IN THAT TRANSACTION. WHILE THE EXIMBANK STAFF AGREED

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TO PRESENT THE 100 MILLION DOLS. PROPOSAL TO THE BOARD OF DIRECTORS IT INDICATED THAT IT COULD NOT BE ENCOURAGING GIVEN THE HISTORY OF LATE PAYMENTS AND THE NEAR TWO YEAR DELAY IN UTILIZING THE 47 MILLION DOLS. AUTHORIZATION.

5. CASALS ASKED FOR CHANGES IN A) THE ELIGIBILITY DATE, MOVING IT FROM JULY 7, 1975 TO MAY 1, 1977; B) THE AVAILABILITY DATE, FROM FEBRUARY 15, 1979 TO FEBRUARY 15, 1981; AND C) THE FIRST REPAYMENT DATE, FROM AUGUST 5, 1979 TO AUGUST 5, 1981. BECAUSE OF THE DELAYS INVOLVED, IF EXIMBANK WERE TO EXTEND THE LIFE OF THE CREDIT, CASALS WAS TOLD THAT THESE DATE CHANGES DID NOT APPEAR UNREASONABLE. HE THEN ASKED FOR A REDUCTION IN THE EXIMBANK CREDIT
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INTEREST RATE TO 7-1/2 PER CENT, IT IS NOW 8 PER CENT, AND NO PAYMENT OF THE COMMITMENT FEES UNTIL JANUARY 1, 1978. THESE ARE ANNUALLY 1/2 PER CENT ON THE DIRECT CREDIT AND 1/8 PER CENT ON THE EXIMBANK GUARANTEE. ON THESE POINTS HE WAS TOLD THAT UNDER THE PRESENT INTEREST RATE SCHEDULE, 8 PER CENT FOR THE TERM INVOLVED WOULD BE CONSIDERED LOW, AND IT MIGHT BE THE DECISION OF THE BANK TO CHARGE A HIGHER RATE, IN LINE WITH THE CURRENT SCHEDULE, FOR DISBURSEMENT MADE BEYOND THE EXISTING AVAILABILITY DATE. THE COMMITMENT FEES WERE STANDARD FOR ALL FINANCING AND THE BANK STAFF COULD NOT SEE A POSSIBILITY THAT THEY COULD BE ELIMINATED FOR THE PERIOD BEFORE JANUARY 1978.

6. CASALS WAS PARTICULARLY DISTURBED BY ARTICLE V C (7) AND (8) WHICH REQUIRES, EXCEPT WITH LENDERS CONSENT, THAT THE BORROWER WILL NOT:

(7) SECURED INTEREST. CREATE OR PERMIT THE CREATION OF ANY MORTGAGE, PLEDGE, LIEN, OR OTHER ENCUMBRANCE, ON ANY OF ITS PROPERTIES, WHETHER NOW OWNED OR HEREAFTER ACQUIRED; AND

(8) ADDITIONAL DEBT. CREATE, INCUR, ISSUE, ASSUME OR GUARANTEE ANY DEBT EXCEPT (I) THE INDEBTEDNESS OF THE BORROWER UNDER THIS AGREEMENT AND (II) DEBT WHICH IS PAYABLE OVER A TERM NOT IN EXCESS OF ONE YEAR AND WHICH, WHEN ADDED TO ALL OTHER INDEBTEDNESS OF THE BORROWER, DOES NOT EXCEED THE BORROWER'S NET WORTH.

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THERE WAS CONSIDERABLE DISCUSSION ON THESE POINTS WITH THE USUAL ARGUMENTS THAT EXIMBANK'S CONSENT WOULD NOT BE
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UNREASONABLY WITHHELD, BOTH THE BORROWER AND LENDERS BEING INTERESTED IN THE CONTINUED MAINTENANCE AND GROWTH OF THE COMPANY. THE EXIMBANK PARTICIPANTS BELIEVE THAT IN A POSSIBLE SUBSEQUENT MEETING, WITH CASALS COUNSEL PRESENT, A SATISFACTORY SOLUTION CAN BE REACHED ON THESE TWO PARAGRAPHS.

7. CASALS RAISED FURTHER POINTS A) ON THE VALIDITY OF THE LOAN AGREEMENT BECAUSE IT HAD NOT BEEN APPROVED BY THE DOMINICAN CONGRESS, B) THE ACQUISITION PROGRAM WHICH HE IS NOT YET ABLE TO SUPPLY, C) THE DATE OF THE FIRST PROG-RESS REPORT, D) THE EVENTS OF DEFAULT WHICH COULD LEAD TO CANCELLATION AND THE IMMEDIATE PAYMENT OF ALL PRINCIPAL AND ACCRUED INTEREST TO DAY OF PAYMENT, AND E) THE EXPENSES FOR WHICH THE LENDER CAN CHARGE THE BORROWER. THESE ARE STANDARD TO MOST LOAN AGREEMENTS AND IT APPEARED FROM THE DISCUSSION THAT CASALS IS PREPARED TO ACCEPT THEM.

8. AS A FINAL POINT, HE REQUESTED THAT THE 1 PER CENT GUARANTEE FEE BE ELIMINATED. IT WAS POINTED OUT, THAT THE EXIMBANK GUARANTEE FEE RANGES FROM 3/4 TO 1-1/2 PER CENT PER ANNUM WITH, IN ACTUAL PRACTICE, VERY RARELY BEING SET BELOW 1 PER CENT. WITH THE RECENT RECORD ON REPAYMENTS ON THE OUTSTANDING EXIMBANK AND COMMERCIAL BANK FINANCING TO CDE, MR. CASALS SHOULD BE SATISFIED IF THE EXIMBANK DOES NOT RAISE THE CHARGE ABOVE 1 PER CENT, SHOULD THE EXTENSION BE MADE.

9. WHILE CASALS PRESSED HARD ON SOME OF THE ISSUES, THROUGHOUT THE TALK, RELATIONS WERE AMICABLE. IT WAS AGREED THAT THE VARIOUS POINTS WOULD BE PRESENTED TO THE EXIMBANK BOARD OF DIRECTORS AND THAT CASALS SHOULD HAVE THE BANK'S RESPONSE SHORTLY. CHRISTOPHER

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